

Brussels 15 January 2010

EVCA response to the European Commission consultation on the future “EU 2020 Strategy”

Overview:

The European private equity and venture capital Association (“EVCA”), welcomes the opportunity to contribute to this consultation. EVCA shares the overall approach taken by the European Commission on its vision for 2020 and in particular welcomes the Commission objectives on enhancing innovation, entrepreneurship, education and skills while fully exploiting the single market.

EVCA strongly believes that the venture capital industry can provide essential funding, and business know-how, to enable the innovation and entrepreneurship required to create a sustainable, competitive economy. Many of the technologies that will make possible smart electricity grids, new and faster internet connections and low-carbon energy use will be developed by small and medium sized enterprises (“SMEs”). Venture capital can and should play a vital role in both discovering and unlocking the potential of these technologies and businesses.

On average more than 90% of the venture companies financed every year in Europe are SMEs. Over 90% employ less than 100 employees. In 2009 close to €1 billion were invested in over 125 companies in the strategically important cleantech sector alone.

Since the start of the Lisbon process in 2000 more than €400 billion have been invested in over 70,000 companies by the European Private equity and venture capital industry

A European venture capital industry enabled to grow and prosper in a sustainable manner, is vital to Europe’s economic recovery and competitiveness. This is clearly aligned with the European Commission’s vision for 2020.

The EU 2020 strategy provides an ideal backdrop for the European Commission and other EU institutions to develop and adopt the coherent, long term policy strategy required to create a thriving venture capital market for Europe.

Priorities and Recommendations:

1. Ease access to finance

The Risk Capital Action Plan (“RCAP”) launched by the European Commission in 1998 became one of the main backbones of the EU’s 2000 Lisbon Strategy. It contributed to strengthen the European venture capital industry, it was instrumental in creating a large number of fund management teams and allowed them to gain significant skills and experience. Despite the progress made the venture capital and growth sectors remain vulnerable to financial and economic shocks while there is an absence of institutional investors whose investment criteria are aligned with the venture capital industry.

Recommendations:

After more than ten years since the adoption of the RCAP, EVCA calls on the European Commission and the other EU institutions to:

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- 1- Rethink its policy strategy on venture capital¹. A thriving European venture capital industry can clearly be one very important driver for EU innovation policy, by supporting Europe's high potential small and medium size enterprises (SMEs). The aim should be to develop a self-sustaining and significantly larger European venture capital industry which can compete globally both for investors and for new innovative investments. At the same time the industry's dependence on public finance should be reduced over the medium to long term by increasing private investors' share.
- 2- Convene an expert group to:
 - a. Analyse the existing barriers to the further expansion of the venture capital industry in Europe.
 - b. Propose concrete policy actions which would feed in to the venture capital action plan 2010-2020 for the EU. This should become part of the EU innovation strategy and also part of the EU strategy 2010-2020.
- 3- Review the EU SME definition which poses obstacles to venture backed companies benefiting from a variety of tax reliefs.
- 4- Lighten the burden of social charges, taxation and red tape for young innovative companies. One such example is the Young Innovative Company ("YIC") scheme launched in France in 2004. Such schemes incentivise risk taking by rewarding benefits right from the early stages of a company's development.

2. Fully exploit the single market by enhancing a favourable fiscal and legal environment for private equity and venture capital

Financial markets should be regulated in an appropriate way, so that productive investment and entrepreneurship is not stifled but encouraged. Investors who are willing to take sensible risks against appropriate returns should be allowed to do so for the greater benefit of growth and job creation.

The EU regulatory environment should reflect and support practical business realities. The impact of proposed regulation should be examined before implementation.

The current risk adverse regulatory environment fails to take into account the medium-term impact on financing of start ups and innovative companies and their access to capital. There is an increasing risk adversity at the institutional investor level which is in turn reinforced by regulation at all levels.

The private equity and venture capital industry still does not benefit from an EU single market with the private equity and venture capital markets remaining highly fragmented within Europe. This fragmentation is very harmful for the small and medium size funds and fund managers and consequently for small and medium size companies financed by them. A key priority should be to improve the tax and regulatory environment. All the unnecessary impediments that currently detract international institutional investors from investing in private equity and venture capital should be assessed and removed.

Recommendations:

- 1- Rigorously assess the impact of proposed measures on access to capital for SMEs and innovative companies. EVCA is concerned that proposed financial market regulations will have harmful effects on the funding of innovation. Addressing this is a priority.

¹ See [EVCA's response to the EU public consultation on Community Innovation Policy](#)

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- 2- Examine and address the impact of proposed regulation before implementation. This will ensure that regulation accurately reflects business realities, its practices and industry specific risk. EVCA calls for tailored approaches for the private equity and venture capital industry when proposing regulation. On this particular point, EVCA wishes to highlight the negative impact that proposed regulation like the European Commission's Directive on Alternative Investment Fund Managers ("AIFMD"), would have on this industry. If the Directive is adopted in its current form the consequences would be inappropriate, unfair and disproportionate. The resulting damage to the European private equity and venture capital industry, would hinder much-needed access to capital for SMEs and innovative companies.
- 3- Review regulation related to financial risk. Banks, pension funds and insurance companies are subject to Basel II, solvency II or comparable regimes. These increasingly discourage investment in higher risk asset classes, like private equity and venture capital without considering the adequate risk management tools. More appropriate methods need to be found to integrate such asset classes into the regulatory framework. It is important to note that pension funds and insurance companies account for 25% and 10% respectively of the €370 billion raised by the industry in Europe over the last 5 years.
- 4- Review international accounting standards. A thorough examination of current standards and their implications and practical use for venture capital firms (e.g. consolidation) is crucial.

3. Boost innovation and research

Recommendations:

- 1- Tap the significant innovation potential in public services and public procurement for Research and Development ("R&D"). EVCA views a model along the lines of the US Small Businesses Innovation Research ("SBIR") as being highly beneficial for supporting innovative entrepreneurs.
- 2- Create a well functioning system of intellectual property. The amount of venture capital activity in an industry significantly increases its rate of patenting.

4. Foster Europe's entrepreneurial culture and education

EVCA shares the European Commission vision that education in Europe must improve, but education should also include awareness and better understanding of the range financial instruments available to different types of companies.

It is important to recognise that the venture capital model is not suitable for all types of companies. Its strengths lie primarily in the promotion of a chosen few young companies with high growth expectations that carry the promise of breakthrough innovation.

Recommendations:

- 1- EVCA calls for further efforts to ensure that education and training remain firmly anchored in the broader EU 2020 strategy. The European commission can help enormously in raising awareness on private equity and venture capital by European citizens at large and more specifically entrepreneurs. One example would be for the European commission to encourage representatives from the European Enterprise Network ("ENN") to participate on professional training courses on private equity and venture capital. The private equity and venture capital industry remains committed to provide speakers to relevant EU events as and when required.

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- 2- EVCA encourages the commission to launch a call for tender for the collection of data on private equity and venture capital as a key indicator for formulating innovation policy.

EVCA remains as ever committed to an ongoing dialogue with policy officials and interested stakeholders and can be contacted at the address below:

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